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MEMORANDUM

TO: Participating Retirement Systems Employers

FROM: Peggy G. Boykin, CPA

DATE: May 23, 2007

RE: Retiree Health Insurance Surcharge

We have received preliminary indications from the State Budget Office that the retiree health insurance surcharge is expected to increase from the current rate of 3.35 percent to a range of 3.45 to 3.50 percent effective July 1, 2007. The final number will be calculated after additional analysis and completion of the state budget and will be released in June.

This surcharge, which is paid by state agency and school district employers, is collected by the Retirement Systems and transferred to the Employee Insurance Program on a monthly basis. The surcharge covers the employer contribution costs for health and dental insurance for current retirees. The General Assembly has included appropriations for the additional surcharge costs for payrolls paid with state-appropriated funds. These funds will be allocated directly to state agencies by the Budget Office and to school districts through the State Department of Education.

In addition, the Legislature is also considering a bill that would establish a trust fund as a method of paying and accounting for retiree health insurance and other post-employment benefits (OPEB) in order to comply with new governmental accounting standards. If an OPEB bill is enacted, it may increase the surcharge as a means to begin pre-funding retiree insurance. If this comes to pass, additional state appropriations will be allocated by the Budget Office to cover these costs for state-funded payrolls.

We will send final and official notification as to the approved retiree health insurance surcharge for the coming fiscal year soon after the legislative session ends on Thursday, June 7.

As always, thank you for all that you do!